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C O N F I D E N T I A L SECTION 01 OF 03 WARSAW 001167

SIPDIS

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TAGS: [ENRG](#) [EPET](#) [GG](#) [PO](#) [PREL](#) [RS](#) [SA](#) [SL](#) [UR](#) [AJ](#) [EZ](#)
SUBJECT: POLAND: UPDATE ON ENERGY SECURITY

REF: A. WARSAW 980

[1](#)B. WARSAW 791
[1](#)C. WARSAW 525

Classified By: Charge d'Affaires Ken Hillas for reasons 1.4 b and d

Summary

[1](#)1. (C) The Government of Poland continues to pursue its goal of diversifying energy resources. On May 31, the Cabinet of Ministers approved a resolution prioritizing construction of a gas pipeline from Norway, liquified natural gas (LNG) terminal, and extension of the Odessa-Brody oil pipeline. Ministry of Economy officials have approached Kazakhstan, Azerbaijan, and soon Georgia to negotiate an intergovernmental agreement (IGA) for Odessa-Brody. They are also trying to meet U.S. companies with oil reserves in the Caspian to interest them in the project. Pern, the national oil pipeline operator, is negotiating to purchase the Slovakian company Transpetrol, from Yukos. Deputy Minister of Economy Naimski will be in the U.S. June 14 to 16 and then in Norway the week of June 19. End Summary.

12. (C) Econoff met recently with Pawel Konzal, Advisor to Deputy Minister of Economy Naimski, Krzysztof Rogala, Director of the Ministry of Economy's Office for Diversification of Oil and Gas Supply, and Marcin Jastrzebski, Member of the Board of Pern, the Polish oil pipeline operator, as well as Kristin Hansen of the Norwegian Embassy to discuss Polish energy diversification plans.

Ministers Approve Energy Security Resolution

13. (SBU) On May 31, the Polish Cabinet of Ministers approved a resolution on actions to be taken to increase the energy security of the Republic of Poland. The resolution prioritizes construction of a gas pipeline from Norway to Poland, construction of a liquified natural gas (LNG) terminal in Poland, and extending the Odessa-Brody oil pipeline to Plock in cooperation with the governments of Ukraine, Kazakhstan, Georgia, and Azerbaijan. The document concludes by stating that Poland is not interested in investing in or receiving gas from the Northern European gas pipeline from Russia to Germany and that the government will not support construction of the line in any financial institution (i.e. European Investment Bank) in which Poland owns shares.

Ministry of Economy - Wants an IGA for Odessa-Brody

14. (C) Konzal and Rogala reiterated that Poland's Ministry of Economy continues to focus on energy diversification. Poland will first work on diversification of supply, then work on market liberalization. Deputy Minister of Economy Naimski emphasized this point during his visit to Luxembourg last week for EU discussions on the internal energy market. On gas supply, Poland is pursuing a pipeline deal with Norway and an LNG port facility. On oil supply, Poland would like to negotiate an IGA with the governments of Ukraine, Kazakhstan, Azerbaijan, and Georgia. Econoff explained the complexity of negotiating the Baku-Tbilisi-Ceyhan IGA with just three countries, and asked why Poland didn't concentrate on negotiating an IGA with Ukraine and commercial deals with oil companies. Konzal and Rogala countered that they were also pursuing that option, but felt that the larger IGA would be necessary to convince oil companies to join the pipeline consortium.

Norwegian Gas Supply - Small and Large Pipelines

15. (C) Rogala confirmed recent press reports that the Ministry of Economy had extended its "small Norwegian contract" for the supply of approximately .5 BCM of gas from Norway through Germany, which was due to expire in September.

Hansen of the Norwegian Embassy cautioned that the new agreement is merely a shell that will allow gas supply to continue. Exact quantities and prices have not yet been agreed. Polish officials are also reportedly unhappy that the gas they receive is actually Russian gas that has been swapped with Norwegian supply.

16. (C) In addition, the Ministry of Economy continues to discuss a larger gas supply deal with Norway for approximately 4 BCM for Polish domestic usage in the 2010 time frame. Rogala noted that there are companies in Poland that would use the additional gas now if it were available. The GOP believes that this pipeline is essential to increase North-South deliveries of gas in Europe and reduce Polish dependency on Russian gas. According to the Poles, they are working on two agreements with the Norwegians: one to develop a consortium of approximately 18 companies and municipalities in Norway and Sweden to build a pipeline from Norway through Sweden to Poland, the second a long-term delivery contract with Statoil.

17. (C) The Norwegian Embassy also cautioned us that the Poles are overly optimistic about this deal. Currently, the Norwegian government is considering building a gas pipeline

from Western Norway to Eastern Norway and perhaps on to Sweden and eventually Poland. However, no decision has been made by the Norwegian government to build the internal pipeline, and the Norwegians believe that including the Poles in the consortium at this time will further complicate an already difficult negotiation. The 2010 time frame is also unrealistic given the lead time necessary to negotiate and conclude all the necessary agreements. The government of Norway is happy to sell gas to Poland or any other qualified purchaser, but will look for the best commercial deal.

LNG

¶18. (C) PriceWaterhouseCoopers is conducting a feasibility study for an LNG terminal on the North Baltic seacoast of Poland which should be completed in October. The Ministry of Economy also sent signals to unnamed Middle Eastern countries with gas and financial resources that it would be interested in cooperating with them on constructing the port.

Odessa-Brody-Plock (OBP)

¶19. (C) The draft feasibility study for the pipeline reorientation and extension commissioned by the European Union will be completed in July. Jastrzebski explained that Poland believes that the study is biased toward Ukraine as the consultants were located there, too technical, and not suitable for drafting a business plan or attracting investors. Rogala noted that the authors were not entitled to negotiate with sellers or purchasers, but that Poland doesn't want "an empty pipe". Deputy Minister Naimski will meet with the Odessa-Brody Development Group formed by Baker Donaldson on June 14 to discuss its potential participation in developing the pipeline. The Ministry of Economy will also meet soon with its counterparts in Ukraine to discuss next steps on the project.

Transpetrol

¶10. (C) Rogala and Jastrzebski have been negotiating the purchase of Transpetrol, based in Slovakia, from Yukos. They explained that Yukos originally had a deal with Rosneft for the sale of the assets. However, the government of Slovakia did not approve Rosneft as a purchaser. The contract for Rosneft's purchase has lapsed, and the GOP believes it has a small window in which to purchase the company. All of the officials emphasized that this is a strategic deal for Orlen and the GOP to keep the assets out of Russian hands. The purchase will complement Orlen's recent acquisitions in Lithuania and give Polish Oil company PKN Orlen access to Orlen refineries in the Czech Republic through an oil pipeline that is part of the deal. There will also be only a 30 mile distance from the pipeline to Slovakia-Austria border and thus easier access to Austrian refineries.

Azerbaijan

¶11. (C) Rogala and Jastrzebski were in Baku last week and met with the President and Board members of Socar (Azerbaijani State Oil Company) with their Ukrainian counterparts to discuss potential Azeri oil supplies for OBP. Separately, they met with Azerbaijani Minister of Economy Natic Aliyev, to discuss the IGA. Aliyev reportedly told them that the Azeris are bored of the Ukrainians' years of talking with nothing happening. The government of Azerbaijan no longer takes the Ukrainians seriously, believing that even if the government of Ukraine wants to implement a project it is unable to follow through. Rogala commented that it appeared that the Polish officials were taken seriously by the Azeris.

Georgia

¶12. (C) The Ministry of Economy believes that even if it can negotiate an IGA with Kazakhstan and/or Azerbaijan for oil supply, including Georgia in the deal will be critical. However, the GOP is concerned that the central government still does not control Abkhazia, that it may have lost control of its ports in the recent privatization, and that it no longer controls the energy sector. Minister of Economy Wozniak will be going to Georgia June 19 to 21 to discuss energy issues with the Georgian government. Deputy Minister Naimski would appreciate any information the USG can share about the current state of play in Georgia.

Comment

¶13. (C) While the GOP continues to pursue its goal of achieving energy security, post believes it would benefit greatly from a reiteration of the message that comprehensive energy security must be based on market principles. Because the GOP still owns and operates its energy companies, it incorrectly assumes all countries and companies operate that way. Thus, the current GOP is focusing its efforts on negotiating deals with other governments, believing the commercial details will follow. For example, the Ministry of Economy believes that pursuing an Odessa-Brody IGA with up to five countries (Poland, Ukraine, Kazakhstan, Azerbaijan, and Georgia) is the way to make the pipeline feasible. Therefore, Deputy Minister Naimski would greatly benefit from an explanation of how the U.S. assisted Turkey, Azerbaijan, and Georgia to negotiate the Baku-Tbilisi-Ceyhan pipeline deal, from initial IGA to financial close to actual construction, including the participation of BP and other Azerbaijani-based oil companies.

¶14. (C) While Poland should be congratulated on its decision to speed up IEA membership (ref b), post continues to believe that Naimski would benefit from discussions on how the U.S. and Poland can cooperate on energy security as detailed ref c. Specifically, Poland should develop and implement a comprehensive energy security strategy, TDA could be a source of outside expertise for projects in the energy sector, Poland would benefit from EPA's Methane to Markets project, and Poland should consider nuclear energy and alternative energy sources in examining its resource options.

Naimski would also benefit from a detailed briefing on energy resources in Russia and the Caspian.

HILLAS